

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 IO-11 ISO-00 AID-05 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

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FM AMEMBASSY HELSINKI

TO SECSTATE WASHDC 9625

INFO AMEMBASSY COPENHAGEN

AMEMBASSY OSLO

AMEMBASSY STOCKHOLM

USMISSION EC BRUSSELS

USMISSION GENEVA

USMISSION OECE PARIS

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E.O. 11652: N/A

TAGS: ECON, ETRD, FI

SUBJECT: IMPORT DEPOSIT SCHEME DUE END SONN, BUT SOME SUBSTITUTE
MEASURES MAY BE IN OFFING

REF: (A) 75 HELSINKI 626, (B) HELSINKI 128

1. SUMMARY: IMPORT DEPOSIT SCHEME INTRODUCED MARCH 1975
HAS INCREASED FINLAND'S SHORT-TERM FOREIGN BORROWING. IN
ORDER TO DISCOURAGE IMPORTS AND TO REDUCE PROPORTION OF
TOTAL FOREIGN DEBT WHICH IS SHORT TERM, BANK OF FINLAND
RECENTLY ANNOUNCED "FINES" ON CREDITS FROM FOREIGN SUPPLIERS
OUTSTANDING MORE THAN SIX MONTHS. FINLAND HAS PROMISED
IMF AND OTHER INTERNATIONAL ORGANS TO END IMPORT DEPOSITS
BY MARCH 1976. BANK OF FINLAND IS WORRIED THAT RETURN OF
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IMPORT DEPOSITS MAY INCREASE IMPORTS WHICH REACHED ALARMING

LEVEL IN 1975 RELATIVE TO FINLAND'S EXPORTS. END SUMMARY.

2. FINLAND'S IMPORT DEPOSIT SCHEME INTRODUCED MARCH 1975 DOUBTLESS ENCOURAGED GROWTH OF SHORT TERM BORROWING (I.E., MATURITY LESS THAN ONE YEAR). FROM DECEMBER 1974 TO DECEMBER 1975 FINLAND'S SHORT TERM NET FOREIGN DEBT GREW FROM FMK 1.8 TO 3.9 BILLION. SHORT-TERM DEBT AT END OF 1974 REPRESENTED 15.4 PERCENT OF NET FOREIGN INDEBTEDNESS WHILE END OF 1975 RELATIVE SHARE OF SHORT-TERM DEBT GREW TO 20.9 PERCENT. IMPORTERS, WHO HAD TO DEPOSIT UP TO 30 PERCENT OF PRICE OF ABOUT HALF OF IMPORTS WITH BANK OF FINLAND (THE CENTRAL BANK) FOR SIX MONTHS AT NO INTEREST, RELIED MORE HEAVILY THAN USUAL ON SUPPLIER CREDITS TO ALLEVIATE CASH SHORTAGE RESULTING FROM IMPORT DEPOSITS. PRELIMINARY FIGURES INDICATE THAT WHILE GOVERNMENT HOPED WITH HELP OF IMPORT DEPOSITS TO REDUCE TRADE GAP FROM 1974 LEVEL OF ALMOST FMK 5 BILLION TO ABOUT FMK 3 BILLION IN 1975, 1975 TRADE DEFICIT INSTEAD ESCALATED TO ALMOST FMK 8 BILLION (REF B).

3. TO RESTRAIN GROWTH OF SHORT-TERM FOREIGN INDEBTEDNESS IN 1976 (AND PRESUMABLY IMPORTS AS WELL) BANK OF FINLAND HAS TIGHTENED CONTROL OF SHORT-TERM CREDITS BY INTRODUCING "FINES" ON SUPPLIER CREDITS OF OVER SIX MONTHS. IMPORTER WHO, SIX MONTHS FROM DATE OF IMPORTATION OF AN ITEM, STILL HAS SUPPLIER CREDIT OUTSTANDING IN RESPECT TO IT WILL BE SUBJECT TO 10 PERCENT FINE ON OUTSTANDING AMOUNT OF CREDIT. IN ADDITION, IMPORTER WILL PAY 5 PERCENT FINE ON OUTSTANDING CREDIT FOR EACH SUBSEQUENT FOUR MONTH PERIOD UP TO MAXIMUM FINE OF 30 PERCENT OF OUTSTANDING CREDIT. NEW IMPORT CREDIT FINES SYSTEM, WHICH BEGINS MARCH 1, 1976, WILL NOT BE APPLIED TO THOSE IMPORTS FOR WHICH BANK OF FINLAND HAS APPROVED LONG TERM IMPORT CREDITS, E.G., LARGE MACHINERY, SHIPS, AIRPLANES. SPOKESMAN FOR CENTRAL BANK SAID THAT IT IS DIFFICULT TO ESTIMATE SHARE OF COMMERCIAL CREDITS WHICH WILL BE AFFECTED BY SHORT-TERM CREDIT FINE SYSTEM, BUT SYSTEM EXPECTED ENCOURAGE RAPID TURN-OVER AND REDUCTION OF STOCK OF IMPORTED GOODS.

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4. IMF REPRESENTATIVES ARRIVED IN HELSINKI JANUARY 28 TO DISCUSS AMONG OTHER THINGS IMPORT DEPOSIT SCHEME AND FINLAND'S GROWING FOREIGN INDEBTEDNESS. THIS IS A REGULAR ANNUAL VISIT BUT UNUSUALLY TIMELY THIS YEAR. LAST SUMMER BANK OF FINLAND AND THEN FINNISH GOVERNMENT PROMISED IMF, IN CONNECTION WITH IMF LOAN OF FMK 750 MILLION, TO DISMANTLE IMPORT DEPOSIT SCHEME EARLY IN

1976 AS PART OF ECONOMIC STABILIZATION PROGRAM.

5. FINNISH GOVERNMENT ON FEBRUARY 15 ANNOUNCED A STEP TOWARDS DISMANTLING OF IMPORT DEPOSIT SCHEME. COMMODITIES FIRST REMOVED FROM LIST WERE THOSE SUBJECT TO THE LOWEST (5 PERCENT) DEPOSIT RATE AND ARE LARGELY RAW MATERIALS FOR BASIC INDUSTRIES. ANNUAL IMPORTS OF THESE COMMODITIES ARE ESTIMATED TO VALUE FMK 1 BILLION, EQUALING ABOUT 3.5 PERCENT OF TOTAL IMPORTS. (IMPORT DEPOSIT SCHEME AT ITS MAXIMUM COVERED ABOUT HALF OF TOTAL IMPORTS.) MAUNO KOIVISTO, GOVERNOR OF BANK OF FINLAND, SAID THAT GOVERNMENT'S DECISION TO BEGIN TO DISMANTLE IMPORT SCHEME WAS RELATED TO PROMISE MADE TO IMF LAST SUMMER AND THAT HE DID NOT WANT TO COMMENT OTHERWISE ON SITUATION. FINNISH GOVERNMENT MUST MAKE DECISION ABOUT FUTURE OF PRESENT DEPOSIT SCHEME. FINNISH LAW ON IMPORT DEPOSITS EFFECTIVE UNTIL END OF 1976 GIVES GOVERNMENT DOMESTIC AUTHORITY TO MAKE NEW DECISIONS ON POSSIBLE FOLLOW-UP MEASURES FOR CONTINUED COLLECTION OF IMPORT DEPOSITS TO END OF YEAR.

6 DISMANTLEMENT OF DEPOSIT SCHEME WILL RESULT IN GROWTH OF MONEY SUPPLY AND MAY ENCOURAGE NEW IMPORT GROWTH. IMPORTERS HAVE NOW FMK 1.5 BILLION ON INTEREST-FREE DEPOSITS WITH CENTRAL BANK WHICH MUST BE RETURNED OVER SIX MONTH PERIOD AFTER IMPORT DEPOSIT SCHEME ENDS. IN NOVEMBER 1975 GOVERNOR KOIVISTO STATED THAT DISMANTLING OF IMPORT DEPOSIT SCHEME WOULD BE ACCCOMPANIED BY MATCHING REDUCTION OF BORROWING QUOTAS OF COMMERCIAL BANKS WITH CENTRAL BANK. BANK OF FINLAND OFFICIALS ARE OBVIOUSLY NOT ENTHUSIASTIC ABOUT RETURNING DEPOSITS NOW AND THEY MAY SEEK TO DELAY REFUNDS OF IMPORT DEPOSITS. ATTITUDE OF IMF LIMITED OFFICIAL USE

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MAY BE A KEY FACTOR AS FINLAND WILL PROBABLY HAVE SOON TO BORROW MORE FROM THE FUND. THE IMF MAY SEEK PUT FURTHER CONSTRAINTS ON FINNISH ECONOMIC DECISION-MAKING IN THIS CASE.

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